

TOP: MAINE GOP STARTS TO STOP PENSION BONDS

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By Helen Chang, The Bond Buyer

NEW YORK (Thomson)--Five Republican legislators in Maine last week began a citizen's veto process to overturn a nearly half-billion dollar pension bond issue included in the state's 2006-2007 budget, which narrowly passed along party lines last month with support from a single Republican.

If 50,000 signatures are collected by June 28, the budget's \$447 million of "pension cost reduction bonds," slated to sell in July, could instead be put to a public vote in November.

But "historically speaking, and as a practical matter, the chances of getting that many signatures in this small rural state are slim," said Democratic representative Janet Mills of Farmington.

"It's a tall task, no question about it," said Republican representative Sawin Millett of Waterford, who said the bonds were "an unprecedented use of borrowing for operating purposes and therefore constitutionally illegal."

If enough momentum builds behind the petition, Millett says legislators may reconsider the budget "before it ripens and becomes too late to challenge."

Barring a potential citizen's veto, the budget becomes effective on June 29, or 90 days after it passed.

Between now and June, Millett said, "there could be recognition that this is a high risk borrowing, and maybe a willingness to go back to the drawing table and reconfigure the budget, or reenact something acceptable to both parties."

Legislators could also create a temporary budget, or call a special summer session, said Millett, a former high school math teacher and state finance commissioner from 1989 to 1996. On the other hand, Millett said that the veto process would make Wall Street even more leery of the state just head of its roughly \$100 million general obligation borrowing in June.

Maine's pension cost reduction bonds may be atypical of the state's conservative debt practices, observers say, but are certainly an improvement over Gov. John Baldacci's earlier proposal to securitize \$400 million of lottery revenue. One underwriter termed that proposal "totally inappropriate" and practically an "asset sale." Moody's Investors Service earlier labeled the Democratic governor's proposal as deficit financing, and in February put the state's Aa2 credit rating on watch for a possible downgrade, citing the state's long-depleted rainy-day fund.

The pension cost reduction bonds are a hybrid between a pension obligation and revenue bonds, according to Controller Ed Karass. Lawmakers avoided a typical pension obligation bond in order "to minimize the state's risk and not depend on the arbitrage [involved with a pension obligation bond] to make it work," Karass said.

Revenue pledged to back the bonds include the state lottery, racetrack and slot machine receipts, said Bob Lenna, at the Maine Municipal Bond Bank, which is selling the bonds. Proceeds from the bonds would be used to prepay the state's retirement system, which claims a \$3 billion unfunded liability; money freed up in the general fund would pay for education and replenish the state's rainy-day fund.

Analysts said they will evaluate the bonds in light of the state's total budget. Rich Raphael, an analyst at Fitch Ratings, said states are still using deficit financing to patch their budgets, though not as widely as in 2004.

Meanwhile, the question to be put on the petition will be

formalized by the secretary of state sometime this week. When approved, Millett says he'll begin raising money for a political action committee to gather signatures. Legislators sympathetic to the cause will also be asked for support.

"If each of the 90 members of the Republican Party commits to getting 50 to 100 signatures each, though I hope it doesn't become a straight party exercise, that's substantial," Millett said.

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